

Microfinance policies and regulatory system in Tanzania practitioner perspective

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Macro economic environment

- During the past ten years GDP has been between 4%-6.5% -above population growth rates.
- Inflation single digit
- Agriculture account for more than a third of GDP
- 2/3 of population live in rural areas
- Slightly over 40% of the population fall below the poverty line

Structure of the formal finance system

- Financial sector reform began in 1991 by then there were only six deposit taking institutions, three specialized banks, one insurance company and two state pension funds
- The financial system has expanded rapidly with 22 licensed banks, 4 financial institutions, 5 regional banks and 2 regional financial institutions and, 9 insurance companies, 102 foreign exchange bureaus, and over 600 SACCOS, 60+ NGO MFIs, stock exchange and deposit insurance system

Key players in the microfinance industry

- Informal providers-ROSCAs, ASCAS, Money lenders
- NGOs MFIs-dominated by three MFIs PRIDE, SEDA and FINCA
- Licensed commercial, regional and rural bank units.
- Urban and rural SACCOS
- Government programs-Wholesale and retail
- International Donor Agencies comprise a significant and influential stakeholders group
- Two Apex Organizations-TAMFI (Not active) and SCULT (For SACCOS and it is active)

POLICY AND REGULATORY INTERVATIONS

- In 1998 the Banking and financial institution Act, 1991 was amended to provide for the creation of banks and financial institutions specialized as MFIs
- In year 2000 the Government approved the National Microfinance Policy
- Banking Law was revised in 2003 to give Bank of Tanzania responsibility to regulate and supervise all Financial Cooperatives (FICOS whose deposit surpassed an Tshs 800 million (US\$ 615,000).
- Banking and Financial Regulations, 2005 for Microfinance Companies and Micro credit activities
- Microfinance operations are integrated in the Banking and Financial Institution Act 2006

Who regulates who?

- The Bank of Tanzania is responsible for prudential supervision of Licensed banks, Microfinance Companies, Financial Cooperatives (FICOS), and Financial Institutions
- The Registrar of Cooperatives is responsible for SACCOS-focus on registration and cooperative principles rather than financial performance
- NGOs MFIs are registered with non-financial Government Agencies and Departments and are not regulated.

Microfinance players-Regulated and supervised by BOT

- Commercial Banks- NMB, CRDB, ACB etc.
- Financial Institutions –Postal Bank
- Regional Bank Units- KCB, KFCB, MCB, DCB
- Regional Financial Institutions- Mucoba, Mwangi Community Bank
- Microfinance Companies (currently none)
- Financial Cooperatives-(Currently None)

Why regulate Microfinance?

regulators perspective

- Protect depositors
- Stability of the financial system

MFIs perspective

- **Legitimacy:** Access to savings and commercial credit
- Build confidence of clients and financiers

Results of the regulatory policy

- A few regional and rural units banks have been established since they were introduced in 1998
- No single MFI has transformed itself into a Microfinance Company -Deposit taking MFIs
- 89% of Tanzanians remained un-served with institutional financial service providers
- Majority of the MFIs have remained small with less than 3000 clients

Why limited response to new regulatory policies?

RESTRICTIVE

Stringent ceiling

- If loans are secured by registered collateral, an MFI loan to an individual borrower has a ceiling 3% of core capital
- If secured by chattels or personal guarantee, MFI loan to an individual borrower has a ceiling 1% of core capital
- Banks ceiling is 5% of core capital unsecured and 25% of capital secured BUT virtually all microfinance loans are unsecured

Why limited response to new regulatory policies _stringent provisioning for Microfinance loans

Microfinance loans

Days past due	Classification	Provisioning
0 days	Current	2%
Up- 15 days	Specially mentioned	25%
16-30 days	substandard	50%
31-45 days	Doubtful	75%
More than 45 days	Loss	100%

Commercial loans

Days past due	Classification	Provisioning
0 -30 days	Current	0%
31-60 days	Specially mentioned	5%
61-90 days	substandard	10%
91-180 days	Doubtful	50%
More than 181 days	Loss	100%

Why limited response to new regulatory policies? Cont.

- **Regulatory disparity:** All institutions conducting microfinance business are not treated similarly from regulatory standpoint hence playing field is not level
- Some NGO MFIs are not yet ready to be regulated in terms of capacity to meet staffing and other costs of regulations
- The Regulatory policies seem to focus on exiting NGO MFIs rather than encouraging investors in the sector as way to increase the number of providers – No incentive scheme for investors.

Lessons

- Do not rush to regulate MFIs unless you have critical mass of Microfinance providers
- In a country where microfinance is at infancy stage, the regulatory system need to be progressive and developmental with graduated standards and incentive framework to support institutional development and creation of new MFIs
- Integrating Microfinance into the financial system does not mean all MFIs ought to be regulated , but rather to encourage both strong regulated and unregulated MFIs.

Lessons -cont

- Involvement of all stakeholders is critical for creation of result oriented regulatory system of Microfinance. Effective involvement requires understanding the subject matter by all the stakeholders –MFIs, regulators, Government, Donors etc.

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